

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Bayliss Public Library	County Chippewa
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 2/24/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

- 1 We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
- 2 We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- | | | |
|---|----|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1 | Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. | There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. | There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. | The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5 | The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6 | The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. | The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8 | The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9 | The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95) |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU)			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street		City Cheboygan	State MI
		ZIP 49721	
Accountant Signature <i>Annita Eustice, CPA, CGFM</i>			Date 2/24/06

BAYLISS PUBLIC LIBRARY

**A Component Unit of the
City of Sault Ste. Marie**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

BAYLISS PUBLIC LIBRARY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	7
Notes to Financial Statements	8-15
Supplementary Information	
Balance Sheet – General Fund by Operation	16
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – by Operation	17
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund General Operations	18
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund Branch Operations	19
Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21



INDEPENDENT AUDITORS' REPORT

August 26, 2005

Board of Trustees
Bayliss Public Library -
a component unit of the
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Library as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Library has not presented a Management's Discussion and Analysis.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES

JUNE 30, 2005

Assets

Cash and cash equivalents	\$ 478,690
Investments	77,997
Restricted investments	154,849
Accounts receivable, net	21,500
Prepaid expenses	1,518
Capital assets not being depreciated	22,822
Capital assets, net of depreciation	<u>220,175</u>

Total assets

977,551

Liabilities

Accounts payable	61,641
Noncurrent liabilities	
Compensated absences	<u>19,641</u>

Total liabilities

81,282

Net assets

Invested in capital assets	242,997
Restricted for endowments - expendable	154,849
Unrestricted	<u>498,423</u>

Total net assets

\$ 896,269

The accompanying notes are an integral part of these financial statements.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Program expenditures	
Recreation and culture	\$ 652,996
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Program revenues	
Charges for services	63,514
Penal fines	189,619
Refunds and reimbursements	149,718
State sources	26,733
Donations	12,148
Grants	4,992
Other	3,791
	<hr/>
Total program revenues	450,515
	<hr/>
Net program expenses	(202,481)
	<hr/>
General revenues	
Local sources	184,394
Interest earnings	10,297
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Total general revenues	194,691
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Change in net assets	(7,790)
	<hr/>
Net assets, beginning of year	904,059
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Net assets, end of year	\$ 896,269
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The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>General Fund</u>	<u>Permanent Funds Bayliss Trust</u>	<u>Seal Trust</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets				
Cash and cash equivalents	478,690	\$ -	\$ -	\$ 478,690
Investments	77,997	-	-	77,997
Restricted investments	-	61,968	92,881	154,849
Accounts receivable, net	21,500	-	-	21,500
Prepaid expenditures	1,518	-	-	1,518
Total assets	<u>\$ 579,705</u>	<u>\$ 61,968</u>	<u>\$ 92,881</u>	<u>\$ 734,554</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 61,641	-	-	\$ 61,641
Fund balance				
Fund balance				
Reserved for endowments	-	61,968	92,881	154,849
Unreserved and undesignated	518,064	-	-	518,064
Total fund balances	<u>518,064</u>	<u>61,968</u>	<u>92,881</u>	<u>672,913</u>
Total liabilities and fund balance	<u>\$ 579,705</u>	<u>\$ 61,968</u>	<u>\$ 92,881</u>	<u>\$ 734,554</u>
Reconciliation of fund balance above to the statement of net assets				\$ 672,913
Amounts reported in the statement of net assets are different because				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Add - capital assets (net)				242,997
Certain liabilities, such as accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.				
Deduct - compensated absences payable				<u>(19,641)</u>
Net assets of component unit				<u>\$ 896,269</u>

The accompanying notes are an integral part of these financial statements

BAYLISS PUBLIC LIBRARY

A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Permanent Funds Bayliss Trust	Seal Trust	Total Governmental Funds
Revenues				
Local sources	\$ 184,394	\$ -	\$ -	\$ 184,394
Penal fines	189,619	-	-	189,619
Refunds and reimbursements	149,718	-	-	149,718
Charges for services	63,514	-	-	63,514
State sources	26,733	-	-	26,733
Interest earnings	8,114	649	1,534	10,297
Donations	9,528	-	-	9,528
Grants	4,992	-	-	4,992
Centennial donations	2,620	-	-	2,620
Other	3,791	-	-	3,791
Total revenues	643,023	649	1,534	645,206
Expenditures				
Recreational and culture	626,145	-	-	626,145
Revenues over expenditures	16,878	649	1,534	19,061
Other Financing Sources (uses)				
Transfers in	3,000	-	-	3,000
Transfers out	-	-	(3,000)	(3,000)
Total other financing sources (uses)	3,000	-	(3,000)	-
Change in fund balance	19,878	649	(1,466)	19,061
Fund balance, beginning of year	498,186	61,319	94,347	653,852
Fund balance, end of year	\$ 518,064	\$ 61,968	\$ 92,881	\$ 672,913
Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities				
Net change in fund balance				\$ 19,061
Amounts reported in the statement of activities are different because				
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.				
Add - capital asset additions				45,902
Deduct - depreciation expense				(75,189)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.				
Add - decrease in compensated absences				2,436
Change in net assets				\$ (7,790)

The accompanying notes are an integral part of these financial statements.

BAYLISS PUBLIC LIBRARY

A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR YEAR ENDED JUNE 30, 2005

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
City appropriation	\$ 184,000	\$ 184,000	\$ 184,394	\$ 394
Penal fines	222,672	189,619	189,619	-
Refunds and reimbursements	111,153	123,345	149,718	26,373
Charges for service	61,579	60,954	63,514	2,560
State sources	27,520	31,010	26,733	(4,277)
Interest	12,500	8,400	8,114	(286)
Donations	4,000	4,000	9,528	5,528
Operating grants	6,000	-	4,992	4,992
Centennial donations	-	-	2,620	2,620
Other	2,600	3,000	3,791	791
Total revenues	632,024	604,328	643,023	38,695
Expenditures				
Recreation and culture				
Salaries and wages	411,132	420,311	390,220	30,091
Fringes	51,825	65,106	62,545	2,561
Supplies and materials	115,328	65,741	63,388	2,353
Printing and publishing	1,000	500	395	105
Postage	3,775	2,725	2,930	(205)
Maintenance supplies	2,000	1,000	1,187	(187)
Telephone	7,948	5,848	5,352	496
Travel	1,283	1,813	2,137	(324)
Professional development	5,475	2,400	2,130	270
Insurance	8,000	5,000	4,844	156
Electricity	12,000	10,000	10,181	(181)
Fuel	10,500	6,000	6,051	(51)
Water and sewer	2,500	1,100	977	123
Equipment repairs	2,700	1,500	1,174	326
Building maintenance	51,000	15,000	16,788	(1,788)
Contractual services	44,000	30,800	24,674	6,126
Capital outlay	7,000	7,221	6,869	352
Cooperative services	15,260	16,805	19,610	(2,805)
Centennial	-	-	3,491	(3,491)
Miscellaneous	9,529	1,955	1,202	753
Total expenditures	762,255	660,825	626,145	34,680
Other Financing Sources (uses)				
Transfers in	3,000	3,910	3,000	(910)
Changes in fund balance	(127,231)	(52,587)	19,878	72,465
Fund balance, beginning of year	498,186	498,186	498,186	-
Fund balance, end of year	\$ 370,955	\$ 445,599	\$ 518,064	\$ 72,465

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accounting policies of the *Bayliss Public Library*, a component unit of the City of Sault Ste. Marie, Michigan (the “Library”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In accordance with the provisions of the Governmental Accounting Standards Board Statement 14, and the Statement on Michigan Governmental Accounting and Auditing No. 5, certain other governmental organizations are not considered to be part of the Library entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the Library’s financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no other governmental organizations’ financial statements included in the financial statements of the Library.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Library. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library had no *business-type activities* during the year ended 2005.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following funds as major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library.

The *Bayliss Trust and Seal Trust* are the Library's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted investments, consisting of certificates of deposit restricted for Library maintenance and endowments, are reported at fair value.

2. *Capital assets*

Capital assets, which include land and land improvements, furniture and equipment, building and improvements, and book collection, are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the Library as assets that are used in operations and have initial useful lives beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Library are depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Furniture and equipment	5-7 years
Building and improvements	40 years
Book collection	5 years

3. *Compensated absences*

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The Library adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Following is a summary of deposit and investment balances as of June 30, 2005:

Cash and cash equivalents	\$ 478,690
Investments	77,997
Restricted investments	<u>154,849</u>
Total	<u>\$ 711,536</u>

Bank deposits (checking accounts, savings accounts and CDs)	<u>\$ 711,536</u>
--	--------------------------

At year end, the carrying amount of the Library's deposits was \$711,536. The bank balance of these deposits was \$723,548, of which \$453,522 was insured by the Federal Depository Insurance Corporation (FDIC) and the remaining \$270,026 was uninsured and uncollateralized.

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, securities, and other obligations of the United States of America or an agency or instrumentality of the United States of America.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this State or the United States of America.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a) above and Bankers' acceptances of United States of America banks.
- (e) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

- (g) Obligations described in (a) through (f) above if purchased through an interlocal agreement under the Urban Corporation Act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (h) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (i) The investment pools organized under the Local Government Investment Pool Act, 1985, PA 121, MCL 129.141 to 129.150.

B. Capital assets

Capital assets activity was as follows for the year ended June 30, 2005:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30, 2005</u>
Capital assets not being depreciated				
Land	<u>\$ 22,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,822</u>
Capital assets being depreciated				
Land improvements	\$ 15,250	\$ -	\$ -	\$ 15,250
Furniture and equipment	430,437	18,670	(280,706)	168,401
Building and improvements	474,260	-	-	474,260
Book collection	<u>1,937,944</u>	<u>27,232</u>	<u>(1,695,848)</u>	<u>269,328</u>
Subtotal	<u>2,857,891</u>	<u>45,902</u>	<u>(1,976,554)</u>	<u>927,239</u>
Accumulated depreciation				
Land improvements	15,250	-	-	15,250
Furniture and equipment	380,191	26,801	(280,706)	126,286
Building and improvements	337,910	11,857	-	349,767
Book collection	<u>1,875,078</u>	<u>36,531</u>	<u>(1,695,848)</u>	<u>215,761</u>
Total accumulated depreciation	<u>2,608,429</u>	<u>75,189</u>	<u>(1,976,554)</u>	<u>707,064</u>
Capital asset being depreciated, net	<u>249,462</u>	<u>(29,287)</u>	<u>-</u>	<u>220,175</u>
Governmental activities capital assets, net	<u>\$ 272,284</u>	<u>\$ (29,287)</u>	<u>\$ -</u>	<u>\$ 242,997</u>

Unallocated depreciation expense for the year ended June 30, 2005 was \$75,189. During 2005, the Library wrote off fully-depreciated equipment in the amount of \$280,706 and fully-depreciated assets from the book collection in the amount of \$1,976,554.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

C. Compensated Absences

Accumulated compensated absences activity was as follows for the year ended June 30, 2005:

	<u>Balance July 1 2004</u>	<u>(Increases)</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Accrued compensated absences	\$ <u>22,077</u>	\$ <u>(2,436)</u>	\$ <u>19,641</u>	\$ <u>-</u>

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

IV. OTHER INFORMATION

A. Defined benefit pension plan

Plan Description

The Library's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	-	0%	-
6/30/04	-	0%	-
6/30/05	-	0%	-

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE

NOTES TO THE FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Over- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	\$ 977,093	\$ 734,984	\$ 242,108	132%	\$ 165,026	0%
12/31/01	1,022,077	769,629	252,448	133%	173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%

B. Commitments and Contingencies

The Bayliss Public Library receives financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Bayliss Public Library.

SUPPLEMENTARY INFORMATION

BAYLISS PUBLIC LIBRARY
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN

BALANCE SHEET BY OPERATIONS
GENERAL FUND

JUNE 30, 2005

	General Operations	Branch Operations	Total
ASSETS			
Assets			
Cash and cash equivalents	\$ 297,731	\$ 180,959	\$ 478,690
Investments	28,182	49,815	77,997
Accounts receivable	4,659	-	4,659
Grant receivable	3,492	-	3,492
Due from other governmental units	13,349	-	13,349
Due from other funds	7,684	-	7,684
Prepaid expenses	1,518	-	1,518
Total assets	\$ 356,615	\$ 230,774	\$ 587,389
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 57,434	\$ 4,207	\$ 61,641
Due to other funds	-	7,684	7,684
Total liabilities	57,434	11,891	69,325
Fund balance			
Fund balance			
Unreserved and undesignated	299,181	218,883	518,064
Total fund balance	299,181	218,883	518,064
Total liabilities and fund balance	\$ 356,615	\$ 230,774	\$ 587,389

BAYLISS PUBLIC LIBRARY**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND - BY OPERATION****FOR THE YEAR ENDED JUNE 30, 2005**

	General Operations	Branch Operations	Total
Revenues			
City appropriations	\$ 184,394	\$ -	\$ 184,394
Penal fines	122,286	67,333	189,619
Refunds and reimbursements	149,718	-	149,718
Charges for service	26,510	37,004	63,514
State sources	26,733	-	26,733
Interest	3,626	4,488	8,114
Donations	9,528	-	9,528
Operating grants	4,992	-	4,992
Centennial donations	2,620	-	2,620
Other	3,791	-	3,791
Total revenues	534,198	108,825	643,023
Expenditures			
Recreational and culture	522,539	103,606	626,145
Other Financing Sources (uses)			
Transfers in	3,000	-	3,000
Changes in fund balance	14,659	5,219	19,878
Fund balance, beginning of year	284,522	213,664	498,186
Fund balance, end of year	\$ 299,181	\$ 218,883	\$ 518,064

BAYLISS PUBLIC LIBRARY

A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND GENERAL OPERATIONS

FOR YEAR ENDED JUNE 30, 2005

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
City appropriation	\$ 184,000	\$ 184,000	\$ 184,394	\$ 394
Penal fines	155,339	122,286	122,286	-
Refunds and reimbursements	110,853	123,045	149,718	26,673
Charges for service	24,575	23,950	26,510	2,560
State sources	27,520	31,010	26,733	(4,277)
Interest	9,500	5,400	3,626	(1,774)
Donations	4,000	4,000	9,528	5,528
Operating grants	6,000	-	4,992	4,992
Centennial donations	-	-	2,620	2,620
Other	2,600	3,000	3,791	791
Total revenues	524,387	496,691	534,198	37,507
Expenditures				
Recreation and culture				
Salaries and wages	339,036	349,732	322,398	(27,334)
Fringes	47,062	60,343	58,089	(2,254)
Supplies and materials	93,500	43,924	42,084	(1,840)
Printing and publishing	1,000	500	395	(105)
Postage	2,800	1,750	1,769	19
Maintenance supplies	2,000	1,000	1,187	187
Telephone	5,000	2,900	2,404	(496)
Travel	700	1,000	1,670	670
Professional development	5,000	1,500	1,965	465
Insurance	8,000	5,000	4,844	(156)
Electricity	12,000	10,000	10,181	181
Fuel	10,500	6,000	6,051	51
Water and sewer	2,500	1,100	977	(123)
Equipment repairs	2,700	1,500	1,174	(326)
Building maintenance	51,000	15,000	16,788	1,788
Contractual services	38,000	24,600	19,616	(4,984)
Capital outlay	7,000	7,221	6,869	(352)
Cooperative services	15,260	16,805	19,610	2,805
Centennial	-	-	3,491	3,491
Miscellaneous	9,329	1,755	977	(778)
Total expenditures	652,387	551,630	522,539	(29,091)
Other Financing Sources (uses)				
Transfers in	3,000	3,910	3,000	(910)
Changes in fund balance	(125,000)	(51,029)	14,659	65,688
Fund balance, beginning of year	284,522	284,522	284,522	-
Fund balance, end of year	\$ 159,522	\$ 233,493	\$ 299,181	\$ 65,688

BAYLISS PUBLIC LIBRARY

A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND BRANCH OPERATIONS

FOR YEAR ENDED JUNE 30, 2005

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues				
Refunds and reimbursements	\$ 300	\$ 300	\$ -	\$ (300)
Penal fines	67,333	67,333	67,333	-
Charges for service	37,004	37,004	37,004	-
Interest	3,000	3,000	4,488	1,488
Total revenues	107,637	107,637	108,825	1,188
Expenditures				
Recreation and culture				
Salaries and wages	72,096	70,579	67,822	2,757
Fringes	4,763	4,763	4,456	307
Supplies and materials	21,828	21,817	21,304	513
Postage	975	975	1,161	(186)
Telephone	2,948	2,948	2,948	-
Travel	583	813	467	346
Professional development	475	900	165	735
Contractual services	6,000	6,200	5,058	1,142
Miscellaneous	200	200	225	(25)
Total expenditures	109,868	109,195	103,606	5,589
Changes in fund balance	(2,231)	(1,558)	5,219	6,777
Fund balance, beginning of year	213,664	213,664	213,664	-
Fund balance, end of year	\$ 211,433	\$ 212,106	\$ 218,883	\$ 6,777



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 26, 2005

Board of Trustees
Bayliss Public Library
A Component Unit of the
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities and each major fund of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Library in a separate letter dated August 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 26, 2005

Board of Directors
Bayliss Public Library
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the **Bayliss Public Library** (the "Library") for the year ended June 30, 2005, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal controls and financial reporting responsibilities of the Library. This letter does not affect our report dated August 26, 2005 on the financial statements of the Library.

We have already discussed these comments with the management, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2005-2006.

BAYLISS PUBLIC LIBRARY
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2005

Electronically Filing The Financial Statements

The Library may submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. As requested, we will electronically submit your financial statements to the State of Michigan and provide you with confirmation of receipt by the State of Michigan.

Bayliss Library Branch Cash Accounts

During the performance of the audit procedures related to the Bayliss Public Library in 2004, we noted that bank accounts being used for branch operations at the remote locations were not recorded in the records of Bayliss Public Library. There were six bank accounts at the five branch locations with balances totaling approximately \$13,000 which have not historically been recorded in the Bayliss Library records. Per discussion with management and review of the bank statements related to these accounts, it was noted that three of the five bank accounts were opened using the social security number of the person opening the account. Further, there is some confusion regarding the purpose and ownership of these accounts.

These bank accounts are generally used to deposit donations from patrons, small grants obtained by the branches and other miscellaneous revenues. In addition, small payments for purchase of books and periodicals, purchase of supplies used for library programs, telephone and internet charges and other miscellaneous items. The lack of identification of the fiscal responsibility for these accounts could result in inaccurate accounting for the transactions and a risk of misappropriation of assets.

We recommended that ownership of the accounts be determined. If these cash accounts are not the fiscal responsibility of the Library, the cash should remain with the various branches to be used as they see fit. Further, if the Library has no fiscal responsibility for the accounts, the City's Federal Identification Number should not be used. Bayliss Public Library should document in their branch operating agreements that they are assuming no responsibility for these ancillary bank accounts.

If the Bayliss Library component unit of the City of Sault Ste. Marie is determined fiscally responsible for the cash in these accounts, the accounts opened under personal social security numbers should be closed and reopened using the City's Federal Identification Numbers. The branch personnel would then be responsible to Bayliss Library staff to provide a monthly accounting of the transactions processed in these accounts and a reconciled bank statement for review and approval.

We noted during procedures performed related to the 2005 audit that no progress had been made regarding the fiscal responsibility of the above referenced accounts. Per management, discussions have been held with certain branches in an effort to determine who should have ownership of the accounts and how that responsibility should be defined.

Again, we recommend that the Library establish policy defining their responsibility (or lack thereof) of these referenced accounts. If it is determined that they are cash of the Library, new signature cards should be obtained for each account assigning the appropriate authorized signors. The cash of these accounts would then be accounted for within the accounting records of the Library.

If it is determined that the Library does not have ownership of the accounts, new accounts should be opened in the name of the responsible party with assignment of appropriate authorized signors. The Federal identification number of neither the Library nor the City should then be related to the bank accounts. The transactions processed through the accounts would not be included in the accounting records of the Library.

Conclusion

It has been a pleasure to provide audit services to ***Bayliss Public Library***. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business! Thank you.